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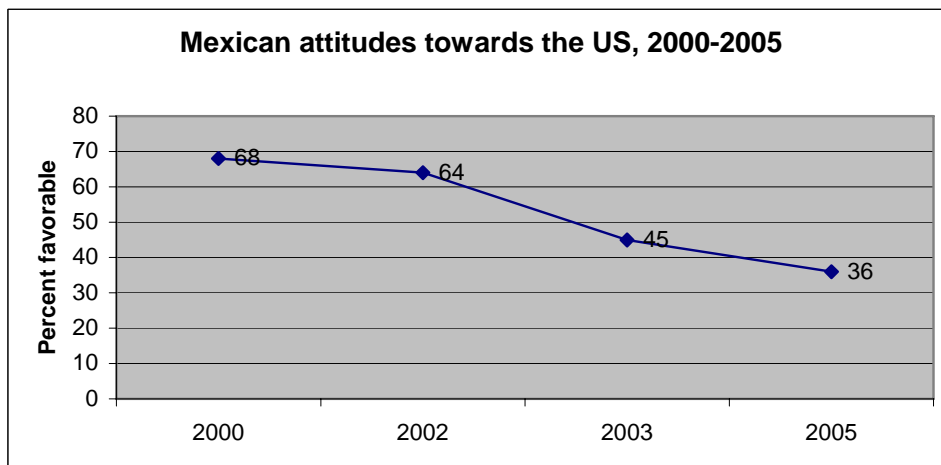
The U.S., Mexico, and North America

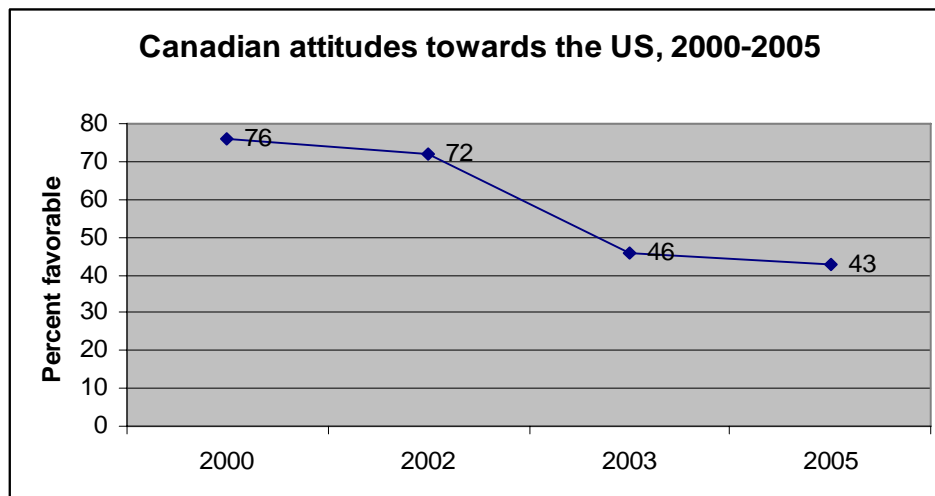
Mr. Chairman, Ranking Member, and Members of the Committee:

Thank you for the invitation to testify on the state of U.S.-Mexico relations and the many issues that affect our relationship. While our country focuses on the Middle East, I applaud this Committee's recognition that there is no country whose stability and progress has more of an impact on the United States than Mexico.

Last month, President George W. Bush met with President Vicente Fox and Prime Minister Stephen Harper in Cancun. The three leaders should be commended for acknowledging the priority of North America, but their agenda was too timid and the results too meager to build on the foundation constructed twelve years ago when the North American Free Trade Agreement (NAFTA) came into effect.

President Bush's election in 2000 raised expectations that the former Texas Governor would give priority to Mexico and Canada, and this was underscored by his first foreign visit, which was to President Fox's ranch in Guanajuato. There, Presidents Bush and Fox pledged to consult with their Canadian counterpart and seek a North American economic community. They have made almost no progress toward that goal. Indeed, relations have deteriorated, as the two sets of polls below show. Between 2000 and 2005, the percentage of Mexicans and Canadians with a favorable view of the United States declined almost by half. Why?





Q: "In general, would you describe your opinion of the United States as favorable or unfavorable?"
 Sources: For 2000 and 2002 data: Pew Research Center (2002), *What The World Thinks In 2002: How Global Publics View: Their Lives, Their Countries, The World, America*. Available at: <http://people-press.org/reports/pdf/165.pdf>; for 2003 and 2005 data: Ekos (2005). *Wave 1 – General Public Survey: Canada, the U.S. and Mexico*. Available at: www.consejomexicano.org/download.php?id=850202_668.2

Despite the obvious differences between Canada and Mexico, the pattern of each country's relationship with the United States is quite similar, and the polls are a symptom. Canadian and Mexican disenchantment is due to their feeling that the United States is unwilling to take their views seriously, and the U.S. does not comply with agreements if it does not serve its interests. Despite pledges by Presidents Clinton and Bush to resolve long-standing problems like trucking with Mexico and softwood lumber with Canada, these problems continue to fester. Although President Bush promised President Fox in February 2001 to address the immigration issue, it continues to corrode our relations. The disagreement among the three governments on the war in Iraq could have been an opportunity for the United States to demonstrate that close relations do not require agreement on every issue, but the opposite occurred.

The root cause of the strained relations is the imbalance in power and the lack of credible continental institutions, but it is also because the U.S. government has never organized itself to address the difficult domestic-continental trade-offs that define North American relations. If the U.S. does not comply with trade agreements, however, it invites similar behavior by our neighbors – e.g., Mexico's Congress is considering changing the "national treatment" of foreign investment. The path toward solving these chronic problems is to place bilateral relations with both Mexico and Canada in a new North American framework.

There are three good reasons to build a North American Community – to compete better in world commerce, to secure ourselves from external threats, and to develop a model that would inspire those seeking to reduce the disparities between rich and poor countries.

Let me focus first on U.S.-Mexico relations, and then, I will propose a continental agenda and proposals to achieve the three goals – security, prosperity, and development.

Mexico and U.S.-Mexican Relations

Mexico is beset by many serious problems, but we should not overlook the great strides made in recent years. Nor should we fail to recognize our own limitations.

It is true that Vicente Fox failed to implement the many reforms needed to make the country more competitive and safe, but he deserves immense credit for democratizing a deeply authoritarian country. This process began with his election, and it has flowered since then. (As a person who organized the observation of elections in Mexico and the United States in the year 2000, let me say that Mexico's new election institutions proved more competent than those in the United States.) Secondly, while Mexico's energy monopoly has constrained the production of oil, gas, and electricity, the Fox Administration with a minority in Congress has demonstrated fiscal responsibility – a feat that should either evoke humility, embarrassment, or praise from the United States. Third, due to NAFTA, Mexico has Latin America's largest economy, and its annual trade has soared to more than twice that of Brazil (\$429 billion vs. \$190 billion in 2004).

Despite this economic success, Mexico has made little progress on matters of public security and drug trafficking. The inequality between rich and poor is still dangerously wide. Mexico imports nearly 25 percent of its natural gas from the United States, a net importer. Taxes are about 11-13 percent of gross national product, a level far below all other OECD countries, and because of that, it has few resources to invest in education or infrastructure. It generates fewer than half of the jobs needed to employ its young workforce, and while its per capita income is high by Latin American standards, it is less than one-sixth that of the United States.

On July 2nd, Mexicans will choose their next president. The current front-runner, Andres Manuel Lopez Obrador of the leftist PRD, speaks to and for the poorest parts of the population. He promises jobs for the poor, welfare for the elderly, disabled, and youth, infrastructure for the country, and a more efficient PEMEX. The question is whether he can accomplish those goals without inflating the economy. Felipe Calderon of the PAN and Roberto Madrazo promise a more market-oriented economic policy and a more efficient energy sector which will be open to private investment and technology. Despite deep anxieties in Mexico over the US immigration debate, all three candidates have been restrained from engaging in anti-American statements.

In Cancun, President Bush said that the U.S. will not involve itself in Mexico's elections and will respect the result. The U.S. government needs to repeat this message often and credibly because there are some in Mexico who do not believe that.

The Importance of North America and The Second Decade Agenda

Since the North American Free Trade Agreement (NAFTA) began to dismantle barriers twelve years ago, trade and investment has nearly tripled among the three countries of North America. Today, the first and second most important trading partners of the US and its two largest sources of energy imports are Canada and Mexico. In fact, the United States exports nearly twice as much to our two neighbors as it does to the 25-nation European Union, and nearly three times more than to Japan and China. North America, in brief, is no longer just a

geographical expression. It has become the largest free-trade area in the world in gross product and territory. Today, people cross the two borders nearly 500 million times each year, and although the U.S. receives immigrants from almost every country, about 25 percent come from Mexico alone.

NAFTA succeeded in expanding trade. It failed because that was not enough. NAFTA was silent on the development gap separating Mexico and its two northern neighbors, and that gap has widened. It omitted immigration, and the number of undocumented Mexican workers in the United States leaped from about 1 to 6 million in the last decade. It didn't plan for market failures, such as the Mexican peso crisis, or even for success, for example, by building new roads and border crossings for additional traffic. Finally, North America has no credible institutions, and so on September 11, 2001, instead of forging a common response to terror, each country reverted to its habitual posture, with the United States acted unilaterally, virtually closing its borders, and Canada and Mexico retreating to their usual ambivalence.

Some proponents of NAFTA argued erroneously that free trade would reduce the flow of migrants, but the opposite happened because the development strategy implicit in NAFTA encourages foreign investment near the border, which serves as a magnet to attract labor from the center and the south of Mexico. Surveys suggest that roughly 90 percent of all Mexican illegal migrants do not come to the United States because they lack jobs; they have them. They seek higher wages. Illegal migration is unlikely to shrink until the income gap begins to narrow. None of the current proposals - walls, guest worker programs, more border patrol, and "regularization" - will solve the problem, and most could make it worse. Before passing a final immigration bill, Congress needs to ask if its individual components will achieve their goals because as they are currently written, most will not. The proposals will be ineffective except in offending our friends and uniting people with divergent interests on the issue of undocumented migration.

In Cancun, the three leaders hardly broached the long-term agenda of narrowing the development gap, building institutions, or forging transportation plans. They did repeat their intention to have a "smart, secure border" and encourage "energy security," but there were no new proposals in either area. They proposed cooperation for "emergency management" and to respond to a pandemic. Finally, they proposed a Competitiveness Council composed of CEOs from large corporations to eliminate divergent regulations.

We need a strategy for reducing inefficient or unnecessary differences in regulations, but this should be done by a group representing a wider spectrum of interests than just CEOs, whose principal goal might be simply to eliminate regulations that affect their business. Regrettably, the three leaders did not address this wider agenda. Perhaps, they still fear re-opening a debate on NAFTA. Perhaps they felt their own political positions were too weak to offer bolder initiatives. Whatever the reason, the sad truth is that Cancun was a missed opportunity.

Forging a North American Community

It is time to stop debating NAFTA and start addressing the agenda for North America's second decade. We should begin by articulating a vision of a **North American Community** where each state recognizes that instability or recession in one affects the others, and each benefit from the others' success. When the value of a neighbor's house rises, this has a positive effect on the other homes. Transforming that vision into programs requires leadership, resources, institutions, and a plan.

The paramount challenge for North America is to close the income gap separating Mexico from its northern neighbors. The European Union demonstrated this could be done. From 1986-2003, the per capita GDP of the four poorest countries of the EU – Spain, Portugal, Greece, and Ireland - rose from 65% of the EU average to 82%. About half of the \$500 billion was spent poorly, but the investment in communications and roads that connected these countries to the richer markets worked. Spain received \$120 billion and spent much of it on new roads that carried goods north and tourists south. Spanish immigration almost ceased. Ireland became the second richest country, and for the first time in its history is receiving immigrants rather than sending them.

North America is different from Europe, but it should learn from the experience, and establish a **North American Investment Fund** that would invest \$20 billion per year for a decade to build roads to connect the south and center of Mexico to the United States. Mexico should provide half of the funds; the U.S., 40%, and Canada, 10%. The funds should be administered by the World Bank. To make best use of these resources, Mexico needs also to undertake fiscal, energy, electricity, and labor reforms. However, instead of making the aid conditional or waiting for Mexico to do the reforms, the three leaders should decide how each would contribute to the community's goal of narrowing the gap. This approach could give Mexico the leverage to undertake the reforms.

The North American Investment Fund would spend less than half as much as Europe did in half the time, but coupled with comprehensive reforms, it could propel Mexico's economy forward. The U.S. contribution over ten years would be about one-third of what it has spent in Iraq in the last three years, but in this case the U.S. economy would benefit. This fund won't end illegal migration overnight or even in 10 years, but unless something is done to reduce the income gap, illegal migration will increase. If Mexico grows at twice the rate of the U.S. and Canada, as would occur under this plan, the gap will close by 20 percent in a decade, and Mexicans will begin to think about their future in Mexico rather than plan for their exit north.

A community approach to narrowing the income gap would yield dividends in other areas. In a post-9/11 world, the best way to assure the security of North America is not at our borders with Canada and Mexico and not by defining "security" solely by fences, but rather by forging a consensus with our neighbors to build a **North American Security Perimeter**. Canadian, Mexican, and US officials would work together on the same team, sharing intelligence and using the same procedures and exclusion lists at every port of entry. This would supplement, not eliminate existing border protection.

To compete against China and India, the three leaders need to help North American businesses to become more efficient by **negotiating a Customs Union in five years**. This would eliminate costly “rules of origin” procedures and needless inspections, allowing officials to focus on drugs, terrorism, and illegal migration. The governments should also **stop imposing trade sanctions on each other**, and they should establish a **North American Regulatory Commission** to promote shared goals in health, the environment, and working conditions, while eliminating unnecessary regulatory differences. Such rules bar Americans from buying pharmaceutical products in Canada even if they’re made in the United States.

Incredibly, the three leaders never asked their Transportation Ministers to develop a **continental plan for Transportation and Infrastructure**, and we pay a price for that oversight. Trucks still cannot cross the U.S.-Mexican border in either direction. When I asked a senior Mexican government official as to why this is the case, he answered that neither the U.S. nor the Mexican trucking industry wanted trucks to cross the border. I asked whether the Presidents of the United States and Mexico represent the trucking industries or their nations. If the latter, then they should know that the cost of moving a truck container across the Canadian border is \$19 while it is \$300 to cross the U.S.-Mexican border. [Eugenio Clariond Reyes, Chief Executive of Grupo Imsa, in David Hendricks, “Roadblocks to Cross-Border Trucking Still a Drag on U.S, Mexico,” **San Antonio Express-News**, April 13, 2006.]

The three leaders should hold **annual summits**, but to make sure the meetings are not just photo-ops, a **North American Advisory Council** should be established. Unlike Europe’s Commission, the Council should be lean, independent, and advisory – composed of five distinguished leaders from each of the three countries. It should prepare the agenda with proposals on North American transportation, the environment, and other issues. A **North American Education plan** should include funding for scholarships, research, and Centers for North American Studies. The Europeans provide about \$3 million each year to support 10 EU Centers in the U.S., but the three governments of North America provide no support for North American studies.

There is little prospect that these initiatives would be approved now. The United States is preoccupied by Iraq and embarrassing fiscal and trade deficits, which eclipse the entire Mexican gross product. Mexico is headed into national elections, and Canada has a minority government. But the question is not whether this plan is feasible, but whether it is desirable and will lead to a more secure and competitive North America.

The answer is that there is no investment that will improve the security and yield more economic benefits for the region than one that narrowed the income gap between Mexico and its neighbors. If a North American Investment Fund is not possible at this time, Congress should consider amending the immigration bill to establish a Commission to study alternatives for closing the income gap. It’s time for our leaders to invest in the future rather than just react to crises.

A North American Community is an idea so compelling that it will, sooner or later, emerge as a frontier issue. It awaits leaders to begin the journey toward transforming it into plans and institutions that can redefine the possible. Bush, Fox, and Harper failed to seize the

opportunity of Cancun, but that won't be the last time. Congress should join with your counterparts in Mexico and Canada to define the kind of bold proposals that would lift Mexico and make a North American Community a model for the world.



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which issued a report, **Building a North American Community**, in May 2005. Many of the proposals in this statement are developed more fully in the report.

From 1985 until September 2002, Dr. Pastor was Professor at Emory University and Fellow and Founding Director of the Latin American Program & the Election-Monitoring Projects at The Carter Center. He was Director of Latin American and Caribbean Affairs on the National Security Council (1977-81), consultant to the State and Defense Departments, and was nominated Ambassador to Panama in 1994. Dr. Pastor was a Fulbright Professor at El Colegio de Mexico (1985-6) and a Visiting Professor at Harvard University (1998-9). He was the Executive Director of the Commission on Federal Election Reform co-chaired by President Jimmy Carter and James A. Baker, III. He received his M.P.A. at the Kennedy School of Government and a Ph.D. in Government at Harvard University and is the author or editor of sixteen books, including *Toward a North American Community: Lessons from the Old World for the New* (Institute of International Economics, 2001); *Exiting the Whirlpool: US Foreign Policy Toward Latin America and the Caribbean* (Westview, 2002); and *Democracy and Elections in North America: What Can We Learn From Our Neighbors?* Election Law Journal (2004).

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